



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** John Stufflebean

**SUBJECT:** SEE BELOW

**DATE:** 05-27-08

Approved

Date

5-29-08

**SUBJECT: INTEGRATED BILLING SYSTEM – DISTRIBUTION OF COSTS  
AND ALLOCATION OF REVENUE**

## **BACKGROUND**

On May 8, 2008, during the Operating Budget study session for the Environmental and Utility Services CSA, Vice Mayor Cortese asked for additional information concerning the cost and revenue allocations of the Integrated Billing System (IBS) and customer service operations.

## **ANALYSIS**

The Integrated Billing System was developed to replace the legacy billing systems for Recycle Plus, the Municipal Water System, and the Storm Sewer and Sanitary Sewer billing systems. In addition to providing billing services for these utilities, IBS also provides hauler support and interfaces with the Customer Call Center. IBS also enhanced customer service by providing online account management capability that was not available under the old systems. The legacy systems that were in use were old, unreliable, and in urgent need of being replaced. Failure of these legacy systems put the City at risk of losing or improperly billing for and accounting for the utility revenues. For 2008-09, the annual utility revenue generated by this system is projected to be \$248 million. The cost of operating the system is \$12.1 million in 2008-09, which means that system costs are 4.9% of the revenue it generates.

The costs of implementing and operating this system are shared by the four utility funds that use this system (Integrated Waste Management, Storm Sewer Operating, Water Utility, and Sewer Service and Use) and the General Fund.

The allocation of IBS costs between the various funds supported by these operations is detailed on Table 1 below. This allocation is based on each fund paying its appropriate share of the total system cost. It should be noted that the allocation for costs that are shared between the four utilities were previously approved by Council. These allocations distribute shared costs for positions and activities that are dedicated to system-wide IBS functions. Other IBS costs, such as positions that are fully dedicated to supporting IBS system functions for a particular fund, are budgeted solely in that fund. Also, these allocations do not include the costs for the Customer Service Call Center budgeted in the General Fund and all for utility funds which are allocated using a different methodology developed specifically for these operations. The budgeted costs (both direct and shared) reflected in the table below for IBS costs paid by the Municipal Water System was 10% in both 2007-08 and 2008-09.

Although system operating cost are higher than previously projected; additional revenue, efficiencies, service enhancements and management monitoring capabilities have been realized by the implementation of IBS to varying degrees. A separate information memo will be issued by the Finance Director that identifies these benefits.

Prior to the implementation of IBS, the Municipal Water System used a small stand-alone legacy billing system and largely relied on a consultant services contract to provide services for nearly all billing system application and reporting changes. The previous billing application was 17 years old with a database customized for the Municipal Water System. This system had an old backup tape drive that served as the sole backup for disaster recovery. In FY 2005-06, the actual cost to provide all billing and customer services utilizing this system totaled \$487,216.

The Municipal Water System customers benefit from the new IBS system as it provides a modern next generation billings system, including complete redundancy built throughout the hardware, operating system, and billing and customer service application. In addition, the City now has a technical team of City employees that can fully support IBS hardware and application with an enterprise-class backup system. Other customer benefits include allowing on-line access to customer accounts and bill paying, pay by check over the phone and interactive voice response where customers can check their balance by phone. The system also provides the ability to cancel a bill and re-bill with correct information, and for City water accounts, it interfaces with the City's Financial Management System (FMS) directly adding to system efficiency. It should be noted that the Municipal Water System has not yet realized additional revenue due to the IBS implementation.

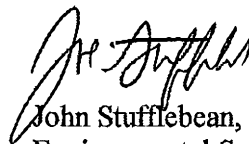
The share of IBS costs charged to each fund will be reviewed regularly, and adjusted when necessary, to ensure the cost allocation remains appropriate.

TABLE 1 – IBS Revenue and Cost Distribution

	<b>% of Total IBS Costs</b>	<b>IBS Cost (\$ million)</b>	<b>IBS Revenue (\$ million)</b>
<b>2007-08 Adopted</b>			
General Fund	6%	\$0.8	N/A
Integrated Waste Management	67%	\$8.5	\$95.6
Storm Sewer Service	5%	\$0.7	\$17.3
<b>Municipal Water System</b>	<b>10%</b>	<b>\$1.3</b>	<b>\$24.6</b>
Sewer Service and Use	12%	\$1.5	\$81.4
	100%	\$12.8	\$218.9
<b>2008-09 Proposed</b>			
General Fund	5%	\$0.6	N/A
Integrated Waste Management	66%	\$8.1	\$102.7
Storm Sewer Service	6%	\$0.7	\$22.6
<b>Municipal Water System</b>	<b>10%</b>	<b>\$1.2</b>	<b>\$25.8</b>
Sewer Service and Use	13%	\$1.5	\$96.3
	100%	\$12.1	\$247.4

**COORDINATION**

This memorandum has been coordinated with the Finance and Information Technology Departments, the City Attorney's Office, and the City Manager's Budget Office.



John Stufflebean, Director  
Environmental Services Department

For questions, please contact Jo Zientek, Deputy Director, Integrated Waste Management Division, Environmental Services, at (408) 535-8557.